

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 SSO-00 NSCE-00 INRE-00 USIE-00

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FM AMCONSUL HONG KONG

TO SECSTATE WASHDC IMMEDIATE 1733

INFO USMISSION NATO PRIORITY

USLO PEKING

S E C R E T SECTION 1 OF 2 HONG KONG 8646

NOFORN

E.O. 11652: XGDS 5B(2)

TAGS: ECON CH NATO

SUBJ: ECONADS: ECONOMIC SITUATION IN THE PRC

SUMMARY : WE RECOMMEND SEVERAL CHANGES IN THE NATO
ECONADS REPORT ON THE ECONOMIC SITUATION IN THE PRC.
ACTION REQUESTED: DEPARTMENT REVIEW OUR RECOMMENDED
CHANGES, COORDINATE WITH CIA/OER, AND COMMENT
DIRECTLY TO US MISSION NATO.
END SUMMARY

BEGIN CONFIDENTIAL

1. WE THINK THE NATO DRAFT REPORT IS GENERALLY GOOD
ON THE FOREIGN TRADE SIDE ALTHOUGH IT SEEMS TO US TO
UNDERESTIMATE GOLD AND FOREIGN EXCHANGE RESERVES. ON
THE INTERNAL SIDE, IT GIVES A SOMEWHAT MORE PESSI-
MISTIC PICTURE THAN WE WOULD, PARTICULARLY ON GRAIN
OUTPUT. UNFORTUNATELY, THE TIME AVAILABLE FOLLOWING
RECEIPT OF REFTTEL IN MID-MORNING JULY 31 HAS PERMITTED
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US TO FOCUS ONLY ON MAJOR ITEMS. WE APPRECIATE

THE OPPORTUNITY TO COMMENT EVEN IN THIS
RESTRICTED TIME FRAME, BUT FEEL WE COULD HAVE DONE
A BETTER JOB WITH A LONGER LEAD TIME.

2. FOOD-POPULATION BALANCE. WE DO NOT VIEW GRAIN OUTPUT AS "STATIONARY" (PARA 5) NOR DO WE THINK THAT THE FOOD POPULATION BALANCE IS "IN PERCARIOUS EQUILIBRIUM", ONE THAT IS "MAINTAINED" BY GROWING IMPORTS OF GRAIN (PARA 2). THE LONG-TERM (1957-1972) TREND LINE OF GRAIN OUTPUT SHOWS AN AVERAGE ANNUAL INCREASE OF BETWEEN 2.5 AND 3 PERCENT. PREMIER CHOU EN-LAI HAS SAID GRAIN OUTPUT DROPPED BY 4 PERCENT IN 1972. BUT IT THEN INCREASED BY 4 TO 6 PERCENT IN 1973 AND, ASSUMING FAVORABLE WEATHER, WE WOULD NOW PROJECT A SLIGHT INCREASE IN 1974 OVER 1973. THUS, THE PRC SUFFERED A SET-BACK IN 1972 BUT SEEMS TO BE RETURNING TO THE LONGER-TERM TREND. (IN THIS CONNECTION, WE WOULD NOTE THAT THE FERTILIZER PLANT PURCHASES MENTIONED IN PARA 4 INCREASE THE PROSPECTS OF FUTURE INCREASES IN GRAIN OUTPUT FROM 1976 ONWARDS. THAT IS RECOGNIZED FOR INDUSTRY IN PARA 8 BUT NOT FOR AGRICULTURE.)

3. IN THE STATISTICAL ANNEX WE WOULD SUGGEST USING THE RECONSTRUCTED OFFICIAL FIGURES OF 240, 236 OR 240 (DEPENDING WHETHER 1971 IS CONSIDERED 246 OR 250), 250 FOR GRAIN OUTPUT.

4. EXCHANGE RESERVES. WE THINK PUTTING GOLD AND FOREIGN EXCHANGE RESERVES AT \$1,500 MILLION (PARA 6) SERIOUSLY UNDERESTIMATES THEM.

5. THE JOINT ECONOMIC COMMITTEE'S 1972 "ECONOMIC ASSESSMENT " OF THE PRC CARRRES RESERVES AT \$720 MILLION AT THE END OF 1970. IN VIEW OF THE MORE FAVORABLE TRADE RESULTS WITH NON-COMMUNIST COUNTRIES IN 1971 AND 1972, IT COULD BE ASSUMED THAT RESERVES ON THE SAME BASIS WOULD BE ABOUT \$1,000 MILLION, ABOUT THREE-FOURTHS OF WHICH WOULD BE IN GOLD. THAT ESTIMATE VALUES GOLD AT \$35 PER OUNCE. ADJUSTING IT THE THE NEW "OFFICIAL" PRICE OF \$42 PER OUNCE ADDS \$150 MILLION. TAKING THE
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PRICE AS \$120 PER OUNCE WOULD ADD \$1,840 MILLION AND GIVE A TOTAL OF \$2,900 MILLION AT THE BEGINNING OF 1973. IF ONE SUBSTRACTED A 1973 BALANCE OF PAYMENTS DEFICIT OF \$400 MILLION, THAT WOULD MEAN RESERVES STOOD AT ABOUT \$2,600 MUULION AT THE END OF 1973, PARTICULARLY AS NO ACCOUNT HAS BEEN TAKEN OF POSSIBLE GOLD PURCHASES DURING THE YEAR THAT WOULD HAVE APPRECIATED. (COMPARE HK 4861 AND HK A-96 OF MAY 2, 1974; HK A-322

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DECEMBER 14, 1973; AND HK 12621 OF DECEMBER 17, 1973)

6. FOREIGN TRADE. IN PARA 7 LINE 4, THE PHRASE BEGINNING "THEIR EXPORTABLE OUTPUT" MIGHT BETTER READ "THE EXPORTABLE OUTPUT OF THEIR TRADITIONAL EXPORT GOODS WHICH HAVE CONSISTED LARGELY OF AGRICULTURAL PRODUCTS". WE AGREE REGARDING THE LIMITATIONS ON INCREASING THEEXPORT OF GOODS THAT ORIGINATE IN THE AGRICULTURAL SECTOR. IN LOOKING TO THE FUTURE, HOWEVER, WE SEE GOOD PROSPECTS FOR INCREASED EXPORTS OF LIGHT INDUSTRIAL GOODS. (SEE HK A-322 MENTIONED ABOVE.) HOWEVER, AS DOES THE NATO DRAFT REPORT, WE VIEW PETROLEUM EXPORTS AS THE MAJOR NEW FOREIGN EXCHANGE EARNER.

7. IN THIS CONNECTION, WE THINK OUTPUT IN 1980 COULD BE ABOUT 200 MILLION TONS (NOT 100 AS IT IS IN THE THIRD-FROM -LAST LINE OF PARA 7). ALSO IN THE STATISTICAL ANNEX, WE WOULD SUGGEST USING THE FIGURES THAT PEKING HAS PUT OUT TO FOREIGNERS SINCE A RE-STUDY OF EARLIER DATA AND CLAIMS TENDS TO SUPPORT THEM. ROUNDED TO TWO DIGITS THEY WOULD BE 28, 43 AND 54. (THE CHINESE CLAIMS ARE 28.5 , 42.6 AND 53.7)

8. ECONOMIC EFFECTS OF THE ANTI-LIN, ANTI-CONFUCIUS CAMPAIGN. WE THINK THE EFFECT ON PRODUCTION WAS PROBABLY SLIGHT TO NEGLIGIBLE DURING 1973. PARA 8, HOWEVER, IS CAST IN THE PRESENT TENSE ANDTHAT GIVES US SOME PAUSE. EVIDENCE IS ACCUMULATING THAT CONCERN OVER INDUSTRIAL PERFORMANCE DURING THE FIRST HALF OF 1974 HAS LED THE LEADERSHIP TO INCREASE THE EMPHASIS ON PRODUCTION VIS-A -VIS REVOLUTION. FURTHERMORE, THE CONTROVERSY ABOUT "OVER RELIANCE" ON IMPORTS CONTINUES IN PRC DOMESTIC
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MEDIA DESPITE THE ASSURANCES TO FOREIGNERS THAT THE CAMPAIGN WILL NOT AFFECT FOREIGN TRADE. THE SIMPLEST THING TO DO IN PARA 8 IS TO CHANGE THE APPROPRIATE VERBS TO THE PAST TENSE.

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ACTION EUR-25

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CIAE-00 EUR-25 PM-07 INR-11 L-03 ACDA-19 NSAE-00

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USLO PEKING

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9. NATIONAL DEFENSE PRODUCTION. AT THE END OF 1973, INDICATION SURFACED OF SOME CONTROVERSY OVER NATIONAL DEFENSE EXPENDITURES AND THE PRIORITY ACCORDED THEM IN THE BUDGET. THERE HAVE BEEN ADDITIONAL INDICATIONS OF THIS CONTROVERSY IN 1974 AS WELL. IT SEEMS REASONABLE TO THINK THAT THERE MAY HAVE BEEN SOME EFFECTS ON DEFENSE PRODUCTION DURING 1973, HOWEVER, THE EVIDENCE AT THE CONFIDENTIAL LEVEL IS VERY SLIGHT. THE SIMPLEST THING TO DO MAY BE TO CHANGE "HAS BEEN" TO "WAS" IN LINE 11 OF PARA 8.
END CONFIDENTIAL

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THERE ARE SOME INDICATIONS OF A LET-UP IN ARMAMENTS PRODUCTION, PERHAPS A PAUSE WHILE GEARING UP FOR NEW MODELS. DEPARTMENT MAY WISH TO INDICATE HOW MUCH COMMENT IT CONSIDERS USEFUL ON THIS SUBJECT.
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10. OTHER MATTERS. PARA 4 SEEMS TO US TO OVEREMPHASIZE THE CONTRIBUTION OF AGRICULTURE TO THE REVENUES FOR INDUSTRIALIZATION. WITH THE GROWTH OF INDUSTRIAL OUT-

PUT AS A FACTOR IN GNP AND WITH THE AGRICULTURAL TAX RATES AND BASE REMAINING RELATIVELY UNCHANGED OVER THE YEARS IT SEEMS LIKELY THAT INDUSTRY'S CONTRIBUTION TO NATIONAL REVENUES HAS GROWN RELATIVE TO AGRICULTURE'S. THE REVENUE FROM AGRICULTURE IS, OF COURSE, "NECESSARY" AS THE DRAFT SAYS, BUT ITS IMPORTANCE HAS PROBABLY DECREASED OVER THE YEARS.

11. PARA 4 ALSO SEEMS TO OVEREMPHASIZE THE PROBLEMS IN TRANSPORTATION.

12. ACTION REQUESTED: WOULD APPRECIATE DEPARTMENT REVIEWING THESE RECOMMENDED CHANGES, COORDINATION WITH CIA/OER AND COMMENTING DIRECTLY TO US MISSION NATO.
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